Oil & Gas – Malaysia

Petronas' Ongoing Recalibration Against Polycrisis

MARKET WEIGHT
(Maintained)

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Highlights

- **Petronas' resiliency is being tested against a new era of polycrisis.** Extending the performance trend in 2024, Petronas' 1H25 profit/EBITDA declined 19%/15% yoy due to lower realised prices and volumes. Petronas' financial strength should support its RM32b dividend obligation. However, as described by group CEO Tengku Taufik (TT), long-term cash flow generation is being challenged by an unprecedented polycrisis, including the costs of energy transition alongside an uncertain "deflation" of oil prices, geopolitical and protectionism risks, OPEC+'s unwinding production cuts, and structural shifts in local O&G landscape.
- **1H25 group capex fell substantially to RM17.7b** (1H24: RM26b). There is no disclosure of domestic, overseas and non-O&G/energy transition capex (which was guided to be at 20-25% capex mix) this time round. However, the decline in yoy capex is attributed to the upstream segment. Petronas' 1H25 free cash flow (FCF) managed to hit RM30b (2024: RM48b), almost on par with its dividend obligation. That said, the cost structure has yet to factor in Petronas' right-sizing exercise, which we opine is an inevitable portfolio re-optimisation. The group's manpower has increased since the pandemic to a peak of 54,105 staff in 2023.

Analysis

- **Energy security 1 – The importance of ramping up domestic O&G production to 2m boepd...** Despite tariff uncertainties and oil price volatility, we continue to expect Petronas to remain steadfast in achieving its target of 2m boepd for domestic O&G production. Note that Malaysia's 2023/2024 O&G production was 1.7m boepd, of which gas was 1m-1.2m boepd. However, Malaysia's exports of both crude oil and gas in the form of liquefied natural gas (LNG) had declined substantially throughout 1H25.
- **...continues to show the importance of maintenance spending and activities.** In particular, the qoq decline in LNG exports (the higher-margin upstream business) was severe in May 25. The 2Q25 data appears to support newsflow of major unexpected shutdowns (to repair key modules like the malfunctioned boiler) for the MLNG Satu And MLNG Dua Terminals since Apr 25. Hence, we continue to see prioritisation of capex to be channelled towards maintenance of existing assets for upstream production, and important downstream facilities including MLNG and Pengerang.

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Yinson Holdings	YNS MK	BUY	2.40	3.15
MISC	MISC MK	BUY	7.47	8.70
Dialog Group	DLG MK	BUY	1.91	2.50

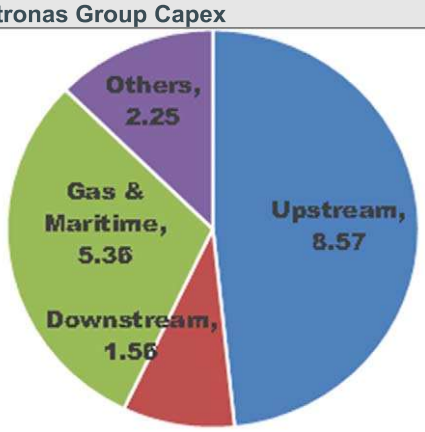
Source: Bloomberg, UOB Kay Hian

Petronas Segmental Performance

RMm	1H25	2024	1H24
Group profit	26.2	55.8	33.1
Group EBITDA	54.4	114.1	64.6
Upstream profit	16.5	34.9	21.4
Production ('000 boepd)	2,403	2,451	2,482
Entitled production boepd)	1,654	1,671	1,703
Gas & Maritime profit	10.4	19.9	9.8
Gross LNG volume (mt)	17.34	35.65	17.82
Downstream profit	(0.8)	(0.7)	0.8
Chemical volume (mt)	5.1	10.1	4.7

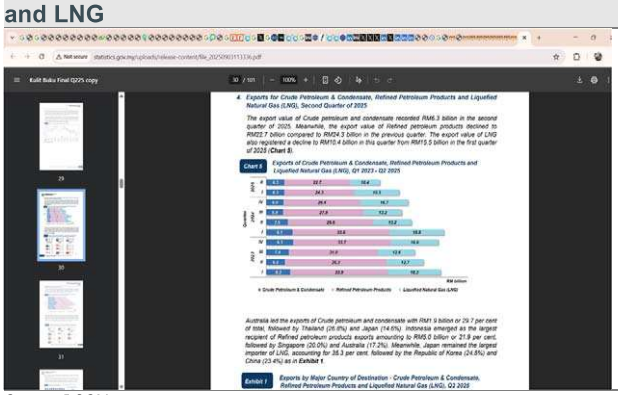
Source: Petronas

Petronas Group Capex



Source: Petronas

Malaysia: Export values of crude, refined petroleum and LNG



Source: DOSM

Malaysia LNG data

LNG exports	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Volume, '000 tonne	6,888	6,717	6,746	6,965	7,418	6,000	6,081
Value, RMb	13,257	15,574	19,079	20,092	18,288	12,732	12,630
Exports to Japan	6,012	7,339	8,860	8,356	8,436	5,459	5,136
Exports to China	3,702	3,743	5,546	5,062	4,309	3,107	3,439
Exports to Korea	2,801	2,040	3,271	4,369	4,841	2,359	2,481
Implied LNG price, US$/MMBtu	**8.51**	**9.81**	**11.28**	**12.18**	**10.41**	**8.46**	**8.16**
LNG exports	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**4Q24**	**1Q25**	**2Q25**
Volume, '000 tonne	7,365	8,021	6,014	5,876	8,041	7,464	5,239
Value, RMb	16,580	18,509	12,993	12,650	16,692	15,483	10,374
Exports to Japan	6,800	8,295	5,110	5,954	6,872	7,127	3,659
Exports to China	4.271	4,579	4,316	2,970	3,528	3,110	2,423
Exports to Korea	4.157	4,382	1,849	3,133	4,826	3,758	2,541
Implied LNG price, US$/MMBtu	**9.13**	**9.08**	**8.52**	**9.01**	**8.65**	**8.68**	**8.52**

Source: Petronas, DOSM

Valuation/Recommendation

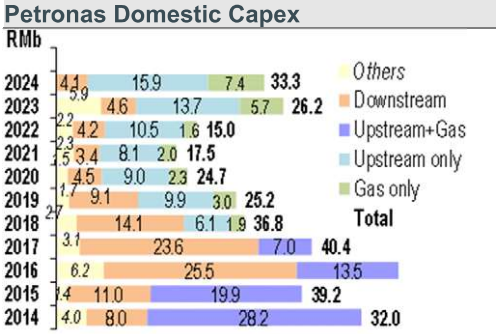
- On top of production issues which are becoming permanent risks for its LNG business, Petronas is facing a structural (local geopolitical) risk of potentially losing control of a portion of its local upstream portfolio. With the effective role of Petros as Sarawak's sole gas aggregator, Petronas is bounded to rechannel 30% of Sarawak gas supply back to the state for domestic usage, vs the current 90-95% as exports. It was rumoured that the Petros deal will enable Petros to earn RM10-20b from Petronas. The 30% promise translates to 1.2mmscf/day or about 9MTPA of gas supply vs MLNG's 30MTPA capacity. At the same time, Petronas had to respond to rising Peninsular gas demand by building a third Regasification terminal.
- **Energy security 2 – Returning focus to secure larger, high quality overseas upstream supply sources.** Via Petronas' Global Portfolio Valuation (GPV) framework, Petronas aims to ramp up its overseas upstream portfolio from the current 40-50% NPV mix to 60% by 2030. Key geographical regions embarked by Petronas today include Suriname, Indonesia, Angola, Brazil and Canada. A key criterion is to revise project returns to be profitable at US$50/bbl oil price, vs over US$60/bbl in the past
- **Energy security 3 – To not ignore, but selectively mature exploration-stage reservoirs with technology.** Petronas shared in its 2024 Integrated Report that it is activating five Malaysian frontier basins to expand 3D seismic coverage from below 15% to 50% by 2030, which equals to mapping 50,000 sq km of new terrain. Coming with a yearly investment of RM0.5b, this deeper data coverage (vs 2D seismic data for existing terrains) will reduce exploration risks. A key beneficiary of this is Uzma. Thus far, Uzma is the only local player that was selected by Petronas for this contract, partnering with a third-party seismic vessel (PX Geo 2) that had begun to mobilise in Malaysia as per its guidance for Aug 25.
- **Retain MARKET WEIGHT on the sector,** as we continue to abandon the scenario of a sector valuation recovery on a Petronas-Petros resolution. Having said, we like the FPSO players, namely Yinson Holdings (BUY/ Target: RM3.15), as its impeccable project execution should support its rerating. Yinson successfully delivered FPSO Agogo four months ahead of time. The FPSO achieved first oil in end-Aug 25, and we understand that the final acceptance was recently concluded. Having said that, we advise investment entry in a 6-12 month horizon, after more clarity on its progress of reoptimising its non-O&G businesses.
- **We also like MISC (BUY/ Target: RM8.70).** However, 2025F earnings may hit a low due to the timing of LNG replenishments and FPSO Mero-3 stable contributions. Hence, similar to Yinson, we also advise investment entry in a 6-12 month horizon, as the risk of LNG downside earnings and impairments may persist until 4Q25. Positively, MISC may benefit from the early delivery of new LNG tankers (for QatarEnergy) starting from 2025 horizon, and it continues to bid for new FPSO contracts. Other stocks that we like include Dialog and Velesto Energy.
- **ESG update: Petronas GHG emissions successfully achieved reasonable level of assurance.** A reputable independent external valuer, LRQA Inspection Malaysia SB, accorded Petronas' 2019-2023 GHG emission inventory (based on operational approach) data as meeting all relevant criteria at a limited level of assurance. LRQA highlighted issues such as: a) various sites using either a design value or monthly analyses of fuel compositions for GHG emission computation, b) recommended Petronas to move to online use of fuel composition for combustion, which is in line with industry practice, and c) consider reporting emissions from exported electricity.
- For Petronas' 2024 GHG emissions data, LRQA accorded that Petronas has met all relevant assurance/conformance/accuracy criteria at a 'reasonable assurance at 5% materiality'. In accounting, and especially in GHG

Malaysia LNG data

LNG exports	1H25	2024	1H24
Volume, '000 tonne	12.70	27.95	13.89
Value, RMb	25.9	60.8	32.0
	June-25	**May 25**	**Apr 25**
Volume, '000 tonne	1,784	1,218	2,238
Value, RMb	3.42	2.39	4.57

Source: DOSM

Petronas Domestic Capex



Source: Petronas

Petronas Manpower Trend

	2024	2023	2022	2021	2020
Staff, pax	**52,517**	**54,105**	**49,771**	**46,884**	**48,679**
- Permanent (%)	88	87	88	87	86
- Contract (%)	12	13	12	13	14
- New hires, pax	4,079	7,386	5,210	2,172	2,160
- Attrition (%)	12.3	6.4	6.6	8.4	4.9
- PCHEM, pax	6,728	6,465	6,288	4,585	>4,700
- PETD, pax	1,355	1,391	2,010	1,466	1,423

Source: Petronas

Petronas GHG Emissions Trend

	2024	2023	2022	2021	2020
Core Business	***Based on Operational Control***				
- Scope 1	51.04	49.09	48.88	46.42	49.76
- Scope 2	0.51	0.69	0.69	0.71	0.91
- Scope 1 + 2	51.55	49.78	49.57	47.13	50.67
Groupwide	***Based on Equity Share***				
- Scope 1 + 2	48.32	46.41	46.78	44.05	47.52
Scope 3	***Based on Operational Control***				
Cat 1 (2022-24)	23.88	31.06	30.27	-	-
Cat 11 (2020-24)	298.16	312.12	292.09	277.04	282.36

**Note: Cat 1 – Category 1: Purchased Goods and Services ; Cat 11 – Category 11 : Use Of Sold Products. These are material Scope 3 categories assessed by Petronas. Cat 11 data prior to 2024 were all restated following external GHG verification by LRQA Inspection Malaysia SB.*

Source: Petronas Integrated/ Annual Reports

accounting, the aim is to reduce the assurance engagement risk, ie the risk that an inappropriate conclusion is expressed when the information on the subject matter is materially misstated. This is an improved step over its previous "limited level of assurance".

Sector Catalyst/Risk

- **Lacking clarity on 2H25 activity outlook guidance.** The High Court has granted an additional month until end-Sep 25 for Petronas and Petros to work out Sarawak gas rights. According to The Edge, none of the industry players would go on record to share their views despite the Petronas-Petros Joint Declaration being officiated in May 25.
- **22 Sep 2025 may be an important date with a follow-up on Shell MDS Injunction Order**. To recap, Shell Middle Distillate Synthesis (MDS) which operates a gas-to-liquid plant in Bintulu and succeeded in creating the world's first gas-derived butter that was savoured by Bill Gates in 2024, was caught in a situation of double payment as both Petronas and Petros invoiced the company for about RM80m for Aug 24 gas supply. Shell sought after the intervention of the High Court, and was granted interim injunction against payments towards Petronas and Petros. With the outstanding gas supply payment now reaching the tune of RM600m, the court's decision will be an important development on the political impasse that had delayed many Sarawak O&G projects, impacting contractors like Dayang.
- **More disclosure needed on resource sharing,** especially on offshore support vessels (OSV). To recap, for the OSV segment, Petronas revealed that production-related OSVs are expected to remain stable at 118 vessels, while drilling-related OSV demand may decline to 220 vessels in 2025, from 250 in 2024. Production-related OSV are deemed to be more resilient in demand, being candidates under Petronas' production operations vessels (POV) tender. On top of this, the OSV industry outlook was buoyed by the scarcity of young OSV, as OSVs up to 20 years old are still qualified for tenders.
- However, Petronas said that its programme on vessel sharing resources, ie the Uberisation of the Logistics Control Tower, Petronas managed to optimise offshore logistics by promoting vessel resource sharing. This eliminated 95 additional common OSVs, from the initial requirement of 325 vessels for 2024, therefore improving efficiency and minimising redundancy. We are concerned that the actual OSV demand may have discrepancies vs what Petronas stated in its Activity Outlook reports, which further complicates the business planning for even the most discipline OSV players locally, such as Dayang Enterprise, Perdana Petroleum, Liannex, Alam Maritim, and Singapore-listed Nam Cheong.

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